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Technical Bulletins: Revised Estimates of 1982-83 State-Shared Taxes

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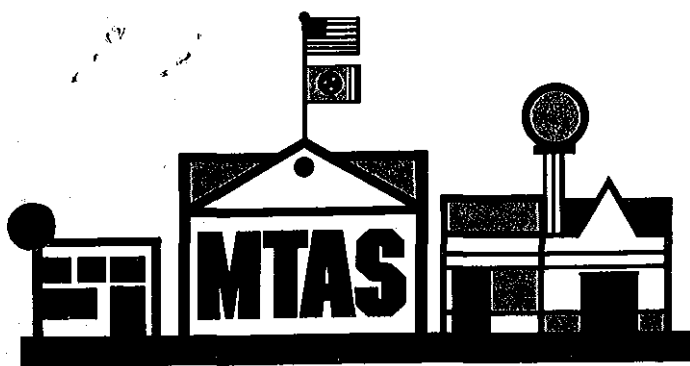
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TECHNICAL BULLETIN

MUNICIPAL TECHNICAL ADVISORY SERVICE
THE UNIVERSITY OF TENNESSEE
IN COOPERATION WITH THE TENNESSEE MUNICIPAL LEAGUE
Authorization Number E14-1050-00-001-83

December 17, 1982

REVISED ESTIMATES OF 1982-83 STATE-SHARED TAXES
Prepared by Asst. Director Ken Joines & Finance Consultant Jim Leuty

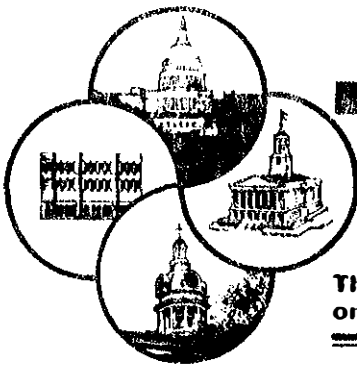
<u>General Fund</u>	<u>Per Capita Amount</u>
State Sales Tax	\$24.26
Beer Tax	.45
Income Tax	Varies with cities but your city already has received its full share
Gasoline Inspection Appropriation	2.79
TVA Gross Receipts Tax	2.61
<u>State Street Aid Fund</u>	
Gasoline & Motor Fuel Tax	13.06

On April 19, 1982, MTAS mailed you a technical bulletin estimating the amount of state shared taxes your city could expect to receive. The state's budget revenue estimates were made with an upturn in the economy as one of the factors. As you are well aware, this upturn has not materialized.

The economic condition of Tennessee cities is being affected by many items other than the failure of state-shared taxes to keep pace with estimates. Consequently many cities are/will be making drastic mid-year corrections to their operations to insure their continual financial stability.

If you have not taken a close look at your financial operations and conditions, we suggest you do so immediately.

In addition to the revised state-shared tax estimates reflected above you will find a copy of an article by Dr. Harry A. Green, executive director, TACIR, which gives an overview of the total revenue systems in Tennessee local government.



TACIR

The Tennessee Advisory Commission
on Intergovernmental Relations

An Information Bulletin

November 9, 1982

A SNAPSHOT OF THE CURRENT LOCAL GOVERNMENT FISCAL
SITUATION IN TENNESSEE

by

Harry A. Green
Executive Director, TACIR

From all indications, Fiscal Year 1983 will be a very bleak year for State and local governments in Tennessee. Federal aid is declining, a significant State government revenue shortfall has occurred during the first four months of the fiscal year, and several local tax initiatives have been defeated in referenda.

This information has to be considered against a backdrop of other important facts. First, growth in State and local revenues has been slowing for the past three years. This isn't true for all local governments, and certainly the World's Fair has made a difference in East Tennessee, but it is true when all governmental revenue is considered as an aggregate.

A second important fact is that the real value of local and intergovernmental revenue, considered as an aggregate, has been declining since 1981. Stated differently, inflation has eroded the growth in revenues and left many local governments in a worse position than actual numbers suggest.

A third important fact is that the major impact of federal reductions is yet to come. There have been a number of Federal aid programs to local governments that have been reduced over previous levels and these results are beginning to be felt. More important for the long run is that the budget authority for these and other Federal programs has been reduced significantly. The impact from this will show up beginning in Federal FY 1984.

Considering these facts, let us "take a picture" of the current situation by briefly examining the major sources of revenue for local governments.

Reductions in Federal Aid

The real impact of Federal aid reductions which began in Fiscal Year 1981 was not felt immediately because the cuts were minor and because the Federal "pipeline" of obligations was full. Prior Federal commitments will continue through the pipeline for 2-3 years so that overall Federal aid will decline only modestly until 1983 and 1984.

During Federal FY 1983, it is estimated that Federal aid to Tennessee will decline by \$181 million: \$134 million to State government and \$47 million to local governments. When these estimates are adjusted to Tennessee's fiscal year, the estimates are approximately \$100.4 million and \$35.3 million respectively.

The State Revenue Picture

Although the detailed revenue numbers for October 1982 are not yet available, the preliminary figures for actual collections suggest a gloomy situation. Year-to-date collections indicate that there is a \$34.18 million shortfall from revenue estimates. The shortfall in the Local Government Fund is \$3.146 million.

For the State government, the most troublesome shortfall is in sales tax revenues. significantly, sales tax revenues has fallen below estimates each month of this fiscal year for an accumulated shortfall of \$23.262 million or 68% of the total shortfall. The seriousness of this shortfall is reflected in that fact that sales tax revenue was estimated to increase at an annual rate of 10.0% but for the period July-October 1982, it is increasing at less than one-half that rate (4.87%).

Moreover, the importance of the World's Fair must be considered. For the period July-September 1982, sales tax revenue increased \$15.548 million over the previous year (a shortfall of \$16.182 million). Of this increase 41.2% came from Knox County and an additional 17.0% from counties contiguous to Knox. Thus, 58.2% of total sales tax revenues for the 1st quarter came from "World Fair" counties. During this same period, Davidson County accounted for 12.7% of the increase, Hamilton for 4.8% and Shelby for 4.0%. In total, these 12 counties accounted for nearly 80% of the increase.

Also important for local governments are the revenues from the gasoline and beer taxes. For the period July-October, gasoline tax revenues declined \$554,000 from the previous year. During the same period in 1981, gasoline tax revenues grew at a 34% rate while this year they declined by .77%. A similar situation exists with the beer tax. This year beer tax revenue declined by \$612,000 or by a negative rate of 14.8%; last year, beer tax revenue increased by 15.5%.

The Local Revenue Picture

The single most important source of revenue for most city and county governments is the property tax. There were a number of rate increases and expansions of the tax base around the state during 1981 and 1982. Consequently, it is expected that property tax revenues will increase for many local governments. However, it should be noted that twelve or more county governments reduced the property tax rate in 1982. Given the difficult economic times and high unemployment, it is expected that tax delinquencies will rise.

The most definite information about the property tax pertains to TVA payments-in-lieu of property taxes. These payments are made to the State government and shared with local governments based on a statutory formula. For this fiscal year, these payments will be around \$10 million below estimates. This shortfall will result in approximately \$5.15 million less revenue for local governments throughout the year. Roughly \$1.2 million of the \$3.146 shortfall in the Local Government Fund is from this source. The remaining \$3.95 million will show up during the next 9 months.

The second most important local source of local government revenue is the sales tax. Most local governments benefit from this tax and all counties except Anderson levy the tax. For the period July-October 1982, total local sales tax collections grew at a rate of 7.31%. On a monthly basis the rate has begun a slowdown. In July, local sales tax collections grew at a 9.05% rate and was almost as good in August (8.98%). In September and October, the rate declined to 5.83% and 5.38% respectively.

During the period July-September 1982 (for which county detail is available), local sales tax revenue increased 7.96% or \$6.92 million. Of this increase, \$3.12 million, or 45.1% was collected in Knox and the contiguous 8 counties. Significantly, 30.6 percent of the increase, or \$2.12 million was collected in Knox County alone. The rate of increased collections in Knox County was 31.7% compared to Davidson (5.9%), Hamilton (4.5%), Shelby (2.3%) and Sullivan (10.1%). When we add these four large counties to the "World's Fair" counties, we account for \$5.02 million or nearly 73% of the total increase in local sales tax collections for the year-to-date. Significantly, 34 counties actually have experienced a decline in local sales tax collections this fiscal year.

Other areas of concern for local governments are beer tax collections and general revenue sharing funds. Since beer tax collections have fallen below estimates at the state level, it is reasonable to expect that some local government also will receive less revenue from this source. A more definite reduction is that cities and counties in Tennessee will receive \$2.9 million less in general revenue sharing funds. Most cities and counties will experience reductions but some will actually have gains. It depends on the relative mix of factors in the formula: personal income, relative tax effort and population.

A final area of concern pertains to user charges. Recent TACIR analysis indicates that there are a number of water and sewer systems in Tennessee that are underfunded. Given the depressed state of the economy and the alarming rate of unemployment in many counties, utility systems - including electric, gas and water/sewer - may find it difficult to collect all user charges that are due. The more protracted the recession becomes, the greater this problem may be.

Conclusion

Without attempting to estimate the influence of property tax changes or user charge delinquencies, local governments in Tennessee can expect a revenue shortfall of around \$52 million in FY 1983, from Federal, State and local sources. And while all local governments will be affected, some will be affected much more severely than others. Moreover, those communities with high proportionate dependent populations and high unemployment (which will be affected by reductions in Federal aid to state governments) can expect increased pressure on local government budgets and private charities.

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